

# Growth of Japanese Market Driven by Increase in Corporate Value

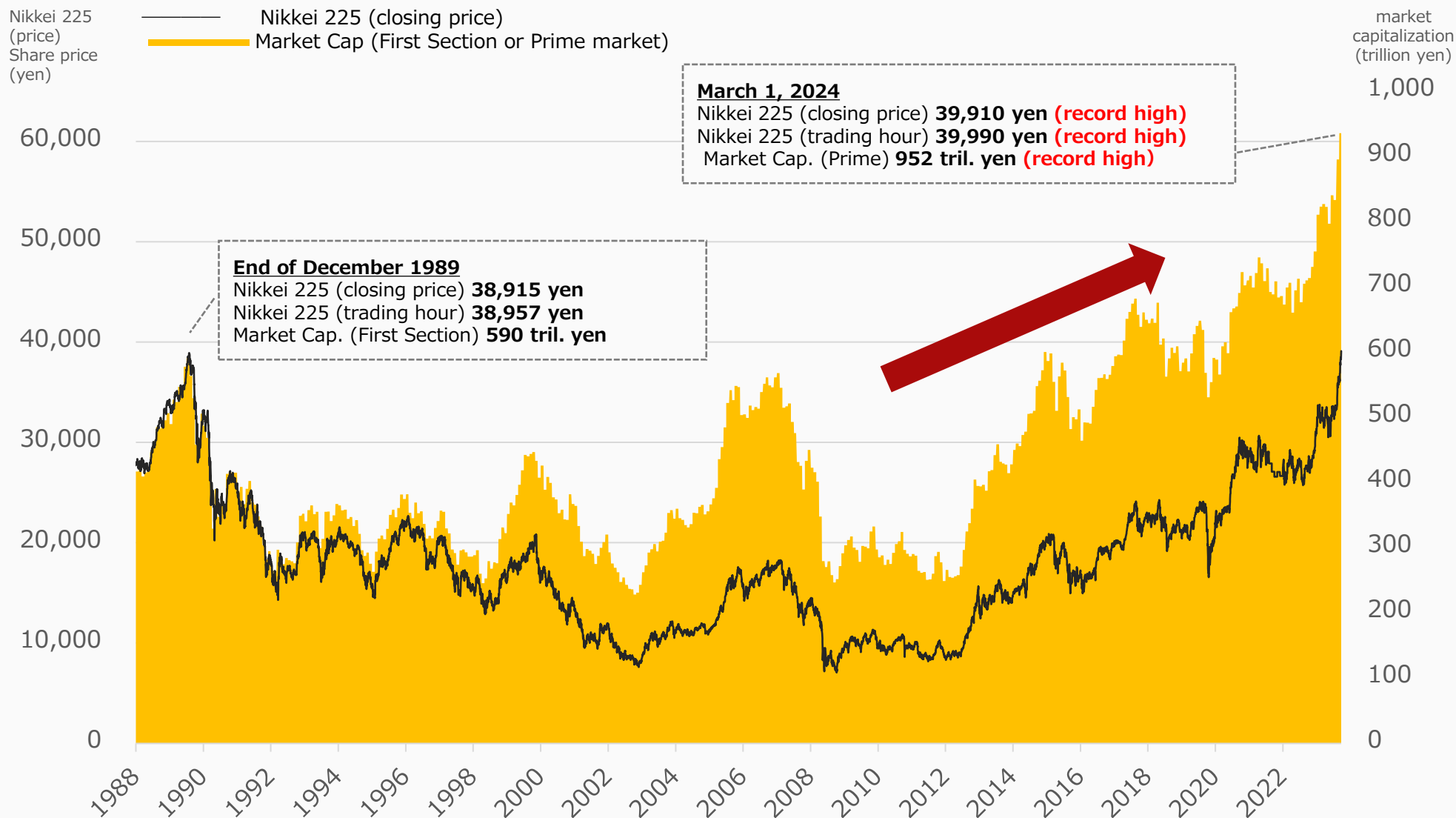
Japan Exchange Group, Inc.

Hiromi Yamaji, Group CEO

March 6, 2024



# Nikkei 225 and Market Capitalization



(Data period: 6/1/1988 - 2/22/2024 Market capitalization (right axis) as of the end of each month

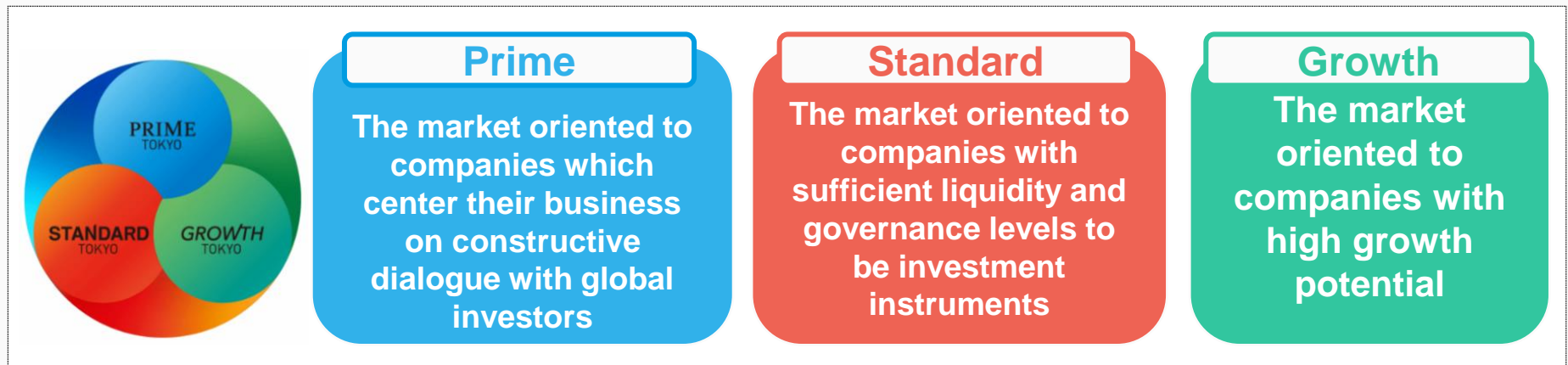
\*\* Market capitalization on the First Section of the Tokyo Stock Exchange before March 2022, and market capitalization on the Prime Market after April 2022.

# Follow-up of Market Restructuring

## Summary of Discussions at the Follow-up Council [Major Policies] (published in Jan. 2023)

- ◆ In order to **ensure the effectiveness of the market restructuring** which was implemented for the purpose of contributing to the improvement of listed companies' corporate value and **to make this an opportunity for real change**, it is essential that TSE continue to work on these reforms with a sense of urgency.
- ◆ In order to revitalize the capital markets, and ultimately the Japanese economy, TSE should **create a framework to motivate listed companies that are not concerned about violating the continued listing criteria to take action independently to enhance their medium- to long-term corporate value, such as promoting cost of capital-conscious management**, by taking advantage of the characteristics of the three market segments.

## Concepts for New Market Segments

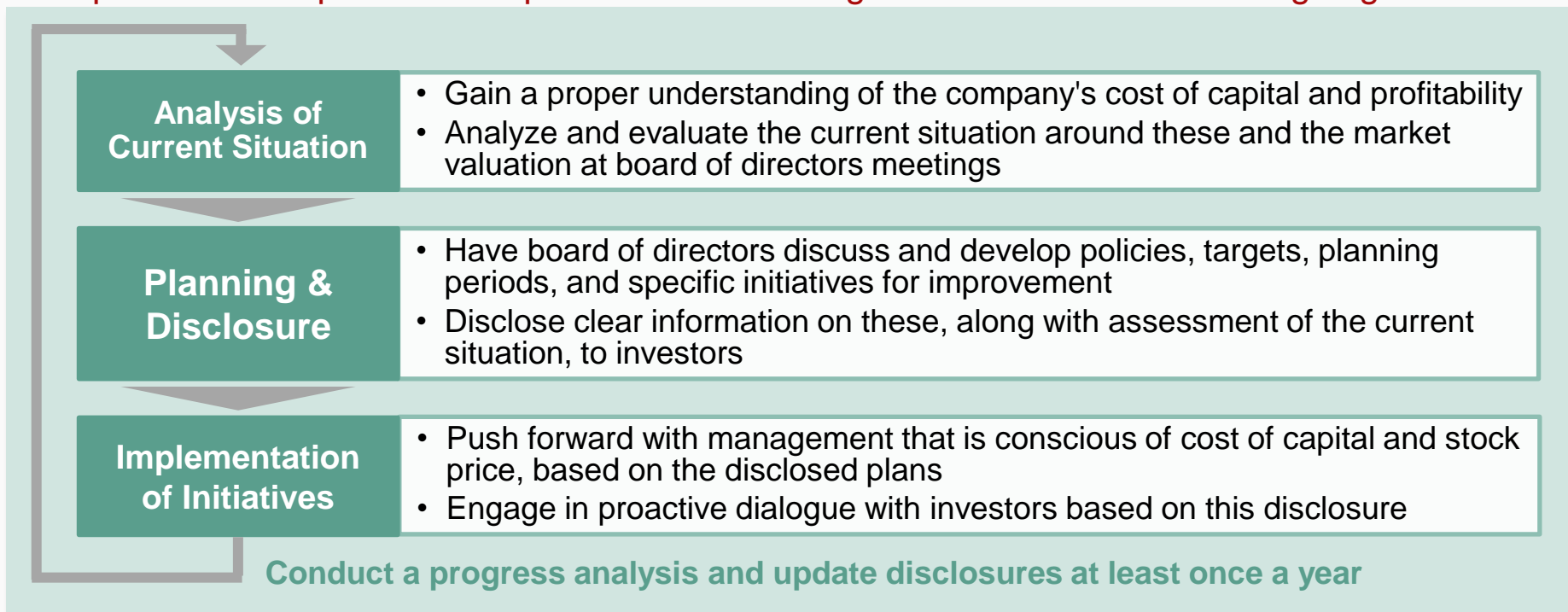


## Companies Subject to Request

- All companies listed on the Prime and Standard Markets.

## Requested Action

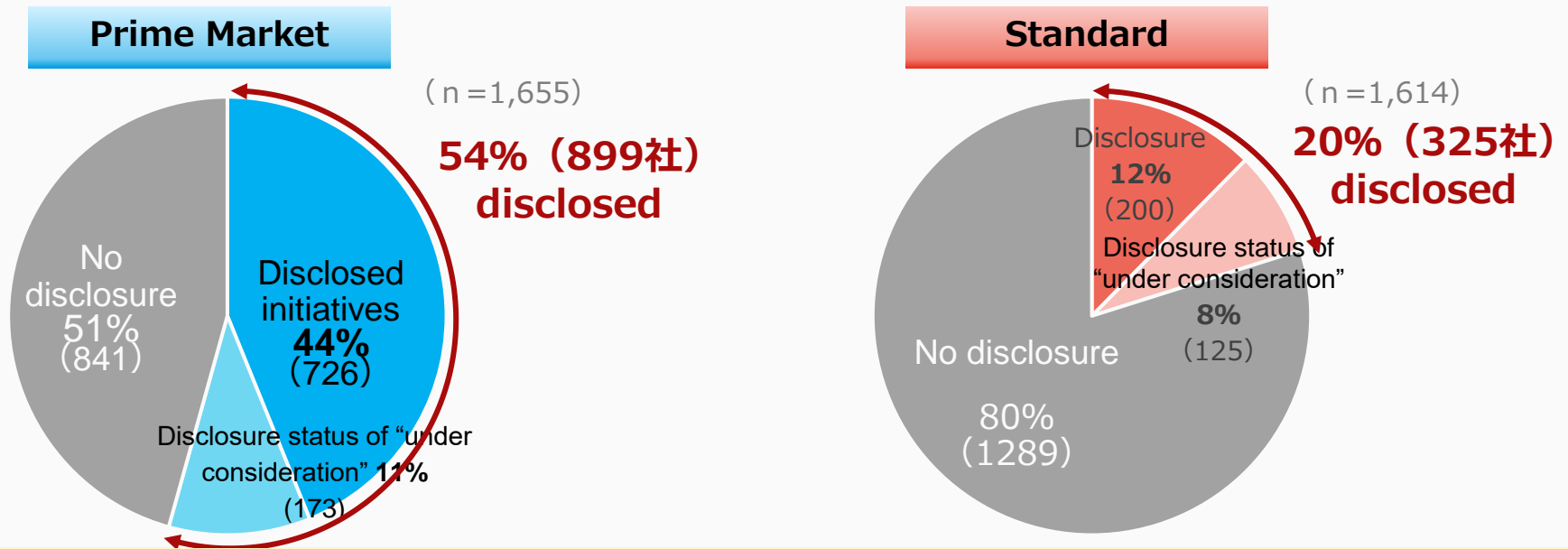
- In order to implement management that is conscious of cost of capital and stock price, **listed companies are requested to implement the following series of actions on an ongoing basis.**



# Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

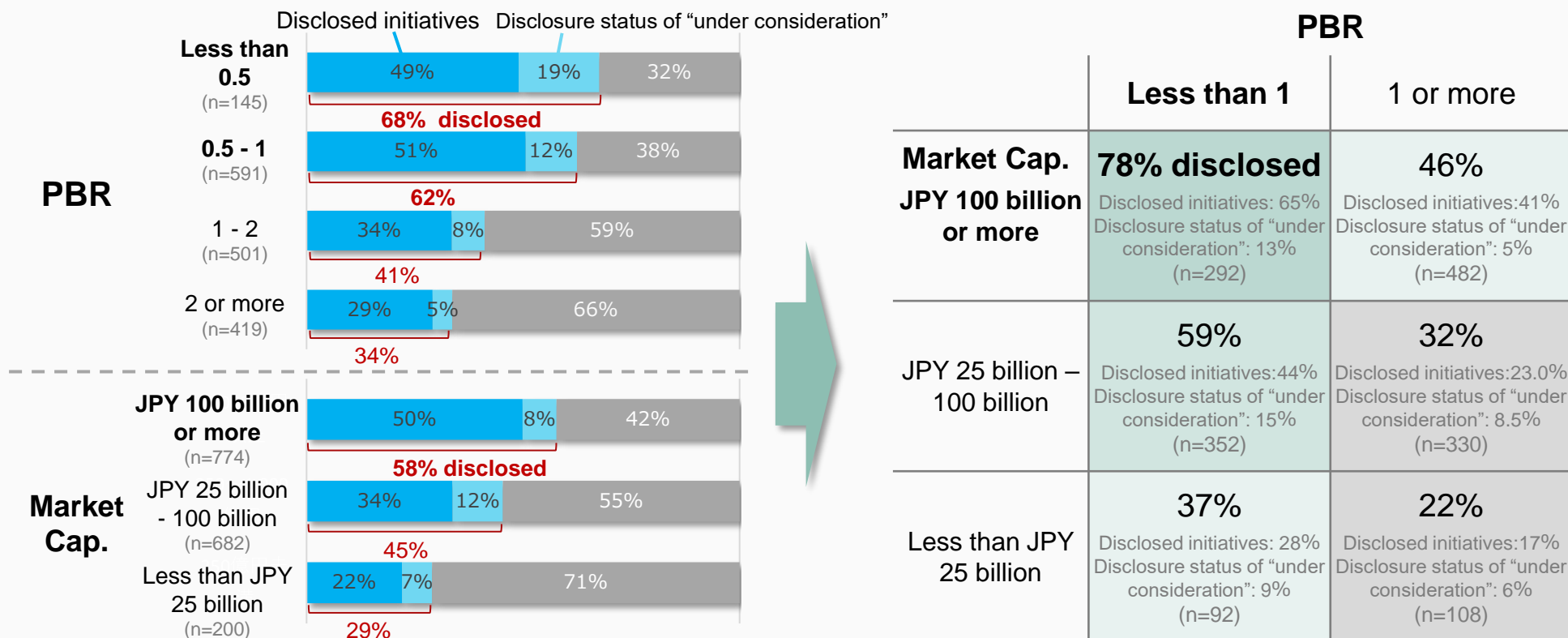
- ◆ As of the end of January, 2024, **54% of Prime Market listed companies (899)** and **20% of Standard Market listed companies (325)** have disclosed information regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.” (Includes companies with a disclosure status of “under consideration”.)
  - Among Prime Market listed companies whose fiscal year ends in March, **64% of companies (726) have disclosed, more than doubled from the 31% in July 2023.** (Includes companies with a disclosure status of “under consideration”.)

Note: Figures are based on the number of companies that have included the prescribed keywords in their most recently submitted corporate governance reports as of the end of January 2024.



- ⇒ There has been a certain amount of progress in the number of companies disclosing information, and TSE will continue to work on increasing the number of companies that consider and disclose information.
- ⇒ In addition, it is important that each company's initiatives are continuously improved based on the perspectives of shareholders and investors. Therefore, TSE will further promote the consideration and implementation of effective measures by listed companies by publishing key points regarding company responses to investors' perspectives and examples of initiatives that have been praised by investors.

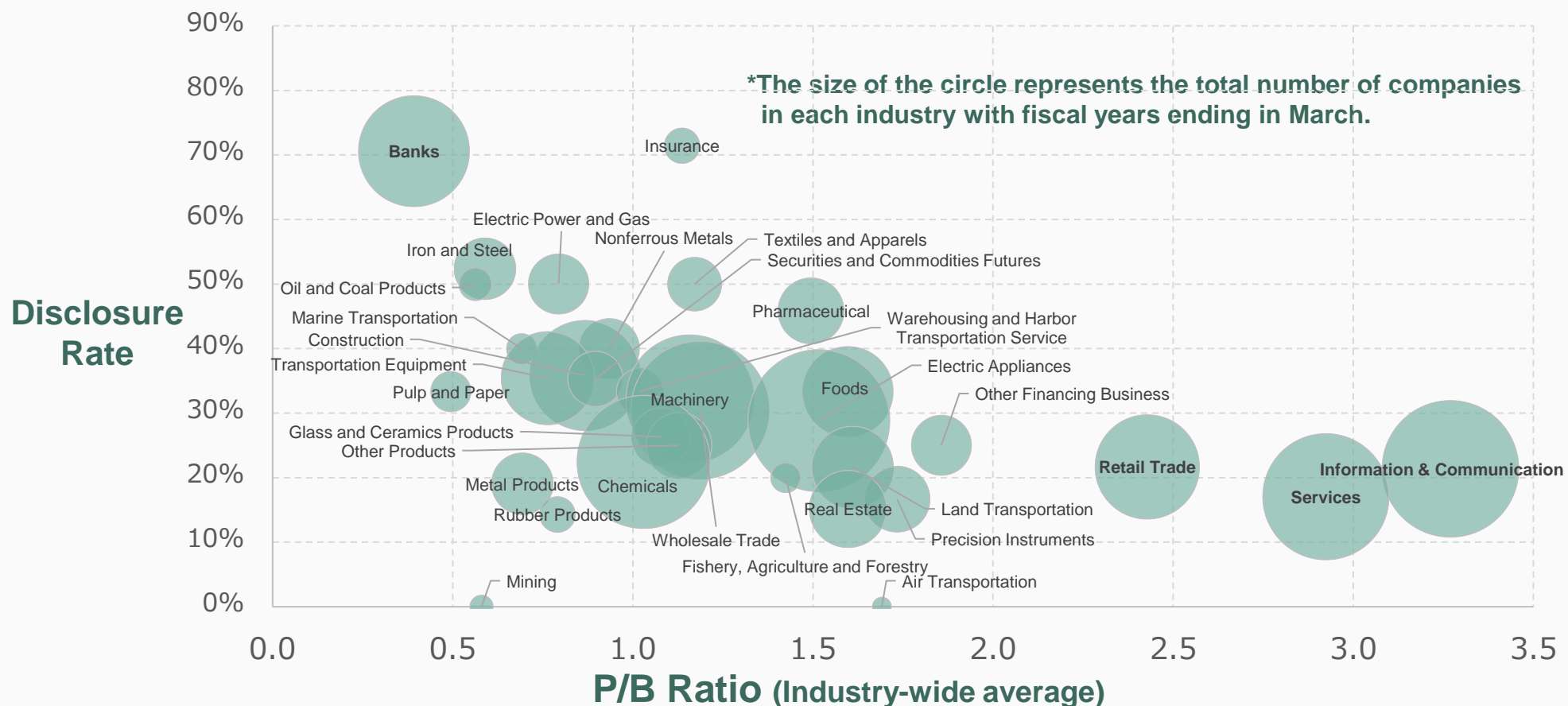
- ◆ As in the previous survey, **disclosure progress is further along among companies with low PBRs and large market capitalizations.**
  - **78%** of Prime Market listed companies with **PBRs below 1x and market capitalizations of JPY 100 billion or more** have disclosed information at the end of 2023.
  - On the other hand, companies with high PBRs and small market capitalizations have made relatively little progress with disclosure, although some progress has been made since the previous survey.



(As of the End of December 2023)

# Reference: Disclosure Status by Industry (Prime Market)

- ◆ **Disclosure progress is further along in industries with lower average PBRs**; in the banking industry, 98.5% of companies have disclosed at the end of Jan. 2024.
- On the other hand, industries with higher average PBRs, such as Information & Communication, Services, and Retail Trade, have made relatively little progress in disclosure.



Note: Based on corporate governance reports and other information as of July 14 for Prime Market listed companies with fiscal years ending in March.  
 Note: Disclosure rate includes companies disclosing status as under consideration.

- ◆ TSE will promote the following initiatives to further encourage listed companies to implement measures to achieve cost of capital and stock price-conscious management, and to publicly disclose the details of those measures.

Publication of a list of companies that have disclosed  
+  
Reiterating the purpose of the request

- ◆ Publish a list of companies that have disclosed information in accordance with the request to inform investors of who is taking action, thereby encouraging companies to make a proactive effort **(January 15, 2024 and updated monthly)**.
- ◆ Before publication, listed companies will be reminded of the purpose of the request and points to keep in mind, as well as the fact that the list is to be published **(notified to listed companies on October 26, 2023)**.

Publication of key points from responses/ examples of initiatives





- ◆ Compile and publish several key points based on responses from investors and examples of initiatives that have been praised by investors for companies of several different sizes and situations. **(February 2024)**

Compilation and distribution of companies' response statuses

- ◆ Compile corporate disclosures and feedback from investors, etc., approximately once every six months. **(January 2024)**



- **Based on interviews with more than 90 domestic and foreign investors, TSE compiled a list of key points of initiatives that investors expect from companies, and examples where there is a gap between the investors' perspective and the company's own.**
- The purpose of this report is not to provide best practices, but rather to serve as a reference for investors to consider. We plan to expand the contents of this report to include interviews with listed companies that are proactively implementing these measures and various seminars.

  <h2>Considering The Investor's Point of View in Regard to Management Conscious of Cost of Capital and Stock Price</h2> <h3>Key Points and Examples</h3> <p>Tokyo Stock Exchange, Inc. Listing Department</p> <p>February 1, 2024</p>  <p>This document is intended to be a reference for listed companies that are considering Action to Implement Management That is Conscious of Cost of Capital and Stock Price, and also to help listed companies that have already disclosed information related to these efforts update their information in the future. <b>This report is based on interviews with many investors in Japan and overseas, and includes a summary of the key points of initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations, and also examples of companies that are not aligned with investors' perspectives.</b></p> <p>Note: The examples in this material are provided solely for informational purposes as a reference for listed companies that are considering management that is conscious of cost of capital and stock price, and are not intended as a solicitation to invest in specific stocks or for any other purpose.</p> <p>© 2024 Japan Exchange Group, Inc., and/or its affiliates</p>	  <h2>Appendix: Case Studies</h2> <p>Tokyo Stock Exchange</p> <p>February 1, 2024</p>  <p>This document is intended as a reference for listed companies that are considering taking action to implement management that is conscious of cost of capital and stock price, and also as a reference for future updates for listed companies that have already made disclosures. <b>This report is based on interviews with many investors in Japan and overseas, and compiles examples of measures investors deemed as fulfilling the expectations they have for corporations.</b></p> <p>Note: The examples in this document are provided solely for informational purposes as a reference for listed companies that are considering action to implement management that is conscious of cost of capital and stock price, and are not intended as a solicitation for investment in any stock or for any other purpose.</p>
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## Analyze

- ✓ **Estimate Cost of Capital “as Investor do”** ex. use and disclose various parameter, ask shareholder
- ✓ **Analyze profitability and market valuation using matrix, sector, time series, segment, not just PBR or ROE**
- ✓ **Check Appropriateness and Efficiency of Balance Sheet** ex. Cash balance, Asset' profitability

## Consider Initiative & Disclosure

- ✓ **Achieve Appropriate Resource Allocation** ex. Start with Capital Allocation Policy
- ✓ **Aim to Reduce Cost of Capital**
- ✓ **Management Compensation/Incentive Plan aligned w/ Mid-Long-Term Capital Growth**
- ✓ **Explain How Mid-Long-Term Goals Can be Achieved**

## Dialogue with Shareholders & Investors

- ✓ **Proactive Involvement of Management and Board of Directors**
- ✓ **Tailored Approach Depending on Shareholder and Investor Type**
- ✓ **Disclose Engagement Result For Better Dialogue and Engagement**

# Expansion of English Disclosure in the Prime Market

(Outline of specifications released on February 26, 2024)

- It will be stipulated in “Matters Desired to be Observed” under the Code of Corporate Conduct that Prime Market listed companies should endeavor to **simultaneously disclose the same material corporate information in Japanese and English.**
- In addition, taking into consideration the practical burdens on listed companies, as the “Matters to be Observed” in the Code of Corporate Conduct, for **financial results and timely disclosure information**, which have a particularly large impact on investment decisions and are required to be promptly disclosed, **simultaneous disclosure in English and Japanese will be mandatory.**

## [Obligation Details]

Type of Documents		Timing of disclosure	Points to Note
Financial Results	<ul style="list-style-type: none"> <li>• Earnings Reports (Annual/Quarterly)</li> <li>• Supplementary Explanatory Materials</li> </ul>	<ul style="list-style-type: none"> <li>• Simultaneously with Japanese*</li> </ul>	<ul style="list-style-type: none"> <li>• While <b>simultaneous disclosure of all documents in full is preferred</b>, <b>disclosure of an excerpt or summary in English is acceptable.</b></li> </ul>
Timely Disclosure Information	<ul style="list-style-type: none"> <li>• All timely disclosure items</li> </ul>		

\*In the case where simultaneous disclosure in English would cause a delay in disclosure in Japanese because urgent action is required due to the occurrence of an incident, or because the content of disclosure in Japanese is not finalized until immediately prior to disclosure due to the coordination with relevant parties, disclosure in English is not necessary to be made at the same time as the Japanese disclosure. (i.e. Disclosure in Japanese is prioritized.)

## [Applicable Period]

Effective for disclosures made on or after April 1, 2025

\*However, since some companies are expected to take time to establish the necessary system for English disclosure., TSE will give a grace period to listed companies that submit a document with a specific estimated date of implementation. The grace period will be one year from when the rules take effect. (TSE will make a list of companies that have been given the grace period and their estimated dates of implementation and publish it on the official JPX website in late March 2025.)

- English disclosures are regarded as **reference translations of Japanese disclosures** (accuracy of the translation is not subject to enforcement measures in the listing rules).
- \*In cases where no English disclosure is made (limited to cases where the plan is not disclosed), enforcement measures in the listing rules apply.
- **Further enhancement of disclosure content and expanding the scope of documents (to Annual Securities Reports, etc.) will continue to be considered.**



## 【Cautionary statement regarding this material】

- This material is for informational purposes only and is not intended as a solicitation to invest or as a recommendation to trade with any particular securities company.
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